

HOUSE FINANCE COMMITTEE  
October 24, 2017  
1:44 p.m.  
FOURTH SPECIAL SESSION

1:44:36 PM

CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:44 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson (via teleconference)

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Amanda Ryder, Fiscal Analyst, Legislative Finance Division; Representative Justin Parish.

PRESENT VIA TELECONFERENCE

Representative Tammie Wilson

SUMMARY

PRESENTATION: LOOKING FORWARD TO FY 19

David Teal, Director, Legislative Finance Division

PRESENTATION: CRIMINAL JUSTICE AGENCIES BUDGET INFORMATION

Amanda Ryder, Fiscal Analyst, Legislative Finance  
Division

Co-Chair Seaton reviewed the meeting agenda.

^PRESENTATION: LOOKING FORWARD TO FY 19

1:46:29 PM

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a spreadsheet titled "Potential Increases in the FY19 Budget" dated October 23, 2017 (copy on file). He shared that he had emailed the spreadsheet to the committee members earlier in the fall in order to remind people about how FY 18 actions would impact FY 19. He pointed to line 1 on the spreadsheet pertaining to Medicaid. The scenario assumed no additional growth in FY 18. He explained that the Office of Management and Budget had generated a similar document with numbers.

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Vice-Chair Gara remarked that the difference was massive - between the LFD \$32 million and OMB \$75 million projections. He asked about the difference.

Mr. Teal assumed it was due to different projections built into the data. He remarked that there were additional budget reductions built into the Medicaid projections, which may not materialize. He stated that there was an assumption that all the anticipated savings would materialize. He remarked that OMB may be saying that if the savings did not materialize, there could be as much as \$75 million. He deferred to OMB for more information. He stated that the numbers would differ from the OMB numbers, but this was the largest variation. He stressed that he and OMB both came up with nearly \$300 million in "holes."

Mr. Teal moved to line 2 related to the Alaska Marine Highway System (AMHS). He stated that the notes said that it was attempted use of one-time money in FY 18.

Representative Ortiz asked for detail on the reason for the current situation.

Mr. Teal replied that there was House proposal from the previous session using some of the FY supplemental head

room of \$100 million of additional spending from the Constitutional Budget Reserve (CBR) that was allowed by the FY 17 appropriation bill. He stated that the House proposed using some of the head room to eliminate the need for FY 18 CBR supermajority vote. He shared that the Senate applied that concept to reducing FY 18 spending. He remarked that the Senate declared that they would not avoid a supermajority vote or use of the CBR. Therefore, the Senate chose to deposit \$30 million of the FY 17 money into the AMHS fund. He stated that the Senate also reappropriated \$9.4 million from the Community Quota Revolving Loan Fund. He announced that the result allowed for a \$40 million swap in FY 18, because there was money in the AMHS fund in FY 17 and in FY 18 the money would be withdrawn and used. He stated that the use of the AMHS money in FY 18 resulted in not using the unrestricted general funds (UGF) that were typically used in FY 18. He noted that there was an apparent \$40 million reduction in FY 18 spending. He shared that he had consulted with Department of Health and Social Services (DHSS) on a Medicaid supplemental, and recalled language in the appropriation bill that said that Medicaid could spend up to \$50 million to pay provider claims. He remarked that DHSS did not anticipate needing the language. He shared that there were three problems with the current situation. He stated that the Senate's proposal to transfer money across fiscal years for continuing costs instead of one-time items would "always come back to haunt you." He stressed that there would be a replacement of the money that was only available once. He stated that DHSS did not expect to use the supplemental language to eliminate some provider payments. He stated that DHSS was approximately two weeks behind in FY 17, so those payments would be moved forward into FY 18.

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Mr. Teal noted that there was no backstop language, because of the conversations with DHSS. He remarked that there was no language in the appropriation bill that said that in FY 18, if Medicaid uses money or for some other reason, if there was insufficient money in AMHS to be available for FY 18 then there would be a backfill with UGF. He announced that OMB told DHSS to pay approximately \$31 million in FY 17 provider payments, which reduced the head room. He felt that crossing fiscal years only confuses people. He stated that OMB asked that DHSS pay seventeen claims in FY 17, and make the FY 18 payments with FY 18 money. He stated that

the Medicaid payments left AMHS short in FY 18 by between \$23 million and \$24 million. He stated that the \$31 million used up the head room from the CBR draw that was expected to be available to AMHS. He shared that AMHS ended up approximately \$24 million short. He stated that there was a \$10 million reappropriation, and then AMHS would get approximately \$7 million of the anticipated \$30 million. The result was roughly a shortfall of \$24 million. He remarked that AMHS would need a supplemental appropriation in FY 18 in order to provide the planned level of service. He shared that AMHS could get a supplemental appropriation of up to \$30 million.

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Mr. Teal addressed line 3 related to fire suppression and line 4 related to salary and benefits. He stated there was approximately \$15 million in anticipated increases in health care. He shared that the legislature did not typically health care cost increases for school districts. The increase was only for the state employees.

Representative Pruitt recalled reading that either health care costs would be flat for retirees. He wondered why there would be an increase in the regular employees.

Mr. Teal shared that the chairman wanted LFD to address the committee regarding healthcare the following week.

Co-Chair Seaton replied that the following week the committee would address budget drivers and what could be done to curtail the increases.

Mr. Teal moved to line 5 related in inmate healthcare. He surmised there would be a supplemental. He moved to line 6 pertaining to Mt. Edgecumbe, and remarked that the sum was about \$116.7 million (shown at the top middle column of the chart).

Representative Guttenberg wondered what part of the total healthcare for students at Mt. Edgecumbe. He wondered what they were paying regardless of shortfalls.

Mr. Teal asked if Representative Guttenberg was referring to healthcare only.

Representative Guttenberg answered in the affirmative.

Mr. Teal responded that the number was multiplied by the annual cost increase.

Representative Guttenberg referred to various drivers for inmate healthcare. He noted that often silos were created. He wondered about places to locate efficiencies to drive down the cost of healthcare in Alaska. He surmised the question may be more for OMB.

Mr. Teal that the employee health care benefit payments quite a bit faster than for Medicaid. He believed members would be shocked at how much the state was spending on healthcare expenses for employees and how much it was increasing.

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Co-Chair Seaton recalled the healthcare authority publications required by the previous session's bill SB 74. The healthcare authority provided an analysis of the cost rise, and included the different units done by each subdivision. He noted that there was a range of escalation.

Vice-Chair Gara remarked that healthcare benefits had not increased. He wondered whether the increase in healthcare costs for state employees was due to the control of Medicaid costs, but the employees required a market rate or the insurance company payments.

Mr. Teal answered that the statement was probably true, but the healthcare authority would address the negotiations between the state and school districts.

Vice-Chair Gara characterized it as a buying power issue.

Mr. Teal agreed.

Vice-Chair Gara asked for verification the information was included in the Mark Foster report.

Mr. Teal answered in the affirmative. He moved to lines 7 through 9 pertaining to debt service and fund capitalizations.

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Representative Ortiz asked for verification Mr. Teal was speaking to what had previously been referred to as revenue sharing.

Mr. Teal replied in the affirmative. The name was now called community assistance.

Representative Ortiz asked about the \$30 million versus \$8 million.

Mr. Teal answered that the governor had not requested a \$30 million standard appropriation to the Community Assistance Fund. It had not been added to the FY 18 budget.

Co-Chair Foster referred to Power Cost Equalization (PCE) and asked whether the \$30 million would be paid from the excess earnings. That payment would not change what would normally be paid out to folks in the program.

Mr. Teal replied in the affirmative.

Vice-Chair Gara referred to community assistance. He believed it had been \$60 million in FY 15 and had declined over the years.

Mr. Teal answered in the affirmative. He moved on to line 10 and addressed oil and gas tax credits.

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Mr. Teal addressed line 12 related to state assistance to retirement. He noted that it was the largest number. He shared that in FY 18 the legislature used \$29 million of money from the Higher Education Fund, but that was not repeatable. He stated that, arguably, its use in FY 17 was one-time money. He shared that the governor did not do a fund source change to use general funds. He stated that the legislature did not change the fund source. The larger impact came from the latest valuation, which showed that FY 19 costs would increase by roughly \$114 million. The total was \$143 million in retirement costs in FY 19, with a real total of \$182 million in the statewide costs. The capital budget was "left alone" and he had no idea what the capital budget might be for FY 19. He shared that a substantial amount of the capital budget was funded through reappropriations.

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Mr. Teal shared that there could be continually budgeting of only using "one-time money" and other sources to reduce the amount of money from its \$300 million level. He shared that in FY 18 there was oil revenue of \$1.8 billion plus dividends, adjustments, and carry forward resulting in a total revenue of roughly \$2.6 billion and a deficit of \$2.3 billion based on spending of \$5 billion. He shared that in FY 19 the budget would increase by \$300 million, and may increase if it was treated as UGF "holes." He stated that revenue should increase, dividends and adjustments would remain the same. He noted that there was an insurance premium tax. He stated that the net of slightly higher revenue plus adjusting for \$300 million left a deficit of roughly \$2.5 billion. He stated that the balance coming into FY 19 was expected to be roughly \$2.1 billion. The CBR would be roughly \$350 million short of being able to fill the deficit. He stated that the statutory budget reserve (SBR) contained approximately \$172 million, or almost exactly half of the expected balance shortfall. He explained that if there were no additional revenues and cuts with included assumptions then the CBR and SBR reserves would still leave a gap of approximately \$170 million. He announced that there would be a \$55 million from the insurance premium tax. The last two years, the \$55 million in insurance premiums were diverted from the UGF to the Alaska Comprehensive Health Association (ACHIA) Fund, which was the health reinsurance program. He remarked that the fund was scheduled to sunset in 2018, and the \$55 million would go into the UGF. He shared that the change was roughly \$100 million, not \$300 million in the modeling. He shared that the FY Medicaid fiscal notes may have been too optimistic, because they removed approximately \$30 million in FY 19 that may or may not materialize. He stated that the previous session's criminal justice legislation, SB 91, may increase the costs in the Department of Corrections (DOC) and elsewhere was not included in the model. He explained that the oil tax credits, based on the forecast, production was expected to increase. He stated that if there was an increase in production, then the oil tax credit deposit would be roughly \$100 million more than the \$54 million in the model.

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Co-Chair Seaton stated that the reason for looking at the budget was because the legislature was looking at revenues and what those amounts would do to the budget holes. He noted that there would need to be converting of the earnings reserve to a management system.

Mr. Teal replied that the state used roughly \$1 billion a year from the CBR for cash flow management. He suggested that if the CBR went to zero then the balance at the end of FY 19 would be zero.

Co-Chair Seaton wanted everyone to understand that in looking at next year's budget and the hole that would have to be filled with revenue.

Representative Pruitt noted that there would be an increase in FY 18 by \$300 million. He expressed concern over the possibility of a pattern of continued increases. He remarked that he could discount the state assistance retirement. He felt that there would be a new normal in UGF. He wondered whether there should be an anticipated \$32 million a year increase to Medicaid. He queried the year over year additional costs going beyond FY 19.

Mr. Teal replied that there were one-time fixes. He stated that, from that point on, there would be a budget of \$5.3 billion in spending. He shared that the model would give the expectations in spending. He shared that LFD used the OMB spending plan for state agencies, which increased with inflation. He stated that, beyond the ten-year plan, there would be specific adjustments for state assistance to retirement, which was scheduled to increase steadily. He noted that there was roughly \$150 to \$200 million a year in annual increases after FY 19.

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Representative Pruitt relayed that the public was concerned with the increases. He was concerned that as the legislature tackled the revenue conversation it would be a continual conversation rather than resolving the revenue issue.

Mr. Teal responded that he understood people expecting the budget to go down. Revenue growth was projected to slightly exceed deficits. The increase in expenditures were not

necessarily increases in the deficit. It was not an easy problem to deal with.

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Co-Chair Seaton recognized Representative Justin Parish in the audience.

Representative Pruitt wanted to see that revenues were outpacing budget growth. He believed there was a better opportunity to look at the UGF expenditures because there were not locations to hide money by pulling from other accounts.

Mr. Teal replied that the OMB 10-year plan had been used. He stated that the new revenue plan would not change the shape of the graphs. The concern from LFD was that when things like cross spend were done, it would come back to haunt the legislature. He recommended focusing on the deficit.

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Co-Chair Seaton relayed that budgetary anomalies such as the AMHS Fund were all things that required passage through both legislative houses.

Representative Grenn asked about line 10 related to oil and gas tax credits. He asked for a repeat of the information.

Mr. Teal deferred to the Department of Revenue (DOR) for the following day.

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RECONVENED

^PRESENTATION: CRIMINAL JUSTICE AGENCIES BUDGET INFORMATION

[2:46:08 PM](#)

AMANDA RYDER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Criminal Justice Agencies' Budget Information" dated October 24, 2017 (copy on file). She relayed the information would be combined and

in inflation adjusted dollars. She began on slide 3 with a line graph showing FY 02 to FY 18.

Co-Chair Seaton asked if the data was reflecting that when the state had more money it had spent more money and when it had less money, cuts had been made.

Ms. Ryder answered in the affirmative.

Representative Pruitt asked for verification that if a chart included other agencies there would be a similar pattern.

Ms. Ryder answered in the affirmative.

Representative Pruitt asked if it included beginning with FY 17.

Ms. Ryder replied that she did not believe SB 91 had made a huge difference in terms of increased funding. She detailed it had saved a bit over all based on fiscal notes passed by the bill. The departments on slide 3 were the most impacted by SB 91.

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Ms. Ryder advanced to slide 4 that included a chart from FY 02 to FY 18 with criminal justice agencies. It was what many people considered the most apples-to-apples comparison. She noted an increase of about \$100 for Alaskans. One could see a similar trend in all funds (red line). She advanced to slide 6 that highlighted the four criminal justice agencies.

Representative Thompson talked about the replacement of funds. He asked if there were any DGF fund source changes on the chart.

Ms. Ryder moved to slide 7 titled "Criminal Justice Agencies' Filled Permanent Full-Time Positions." Between FY 15 and FY 18 there had been more than 350 positions not filled, and remarked that there was a steady decline in the number of filled full-time positions.

Representative Thompson asked if there were unfilled positions that were funded.

Ms. Ryder encouraged examining each division during the subcommittee process. She believed there was a lot of misinformation about slush funds for unfilled positions. There were many positions that departments could not afford to fill due to increased costs and other.

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Representative Thompson hoped the subcommittees would do that. He stressed the need to have clarity on the issue.

Co-Chair Seaton asked if the personal services line item was transferrable.

Ms. Ryder answered that the personal services could be transferred, with the question of what funding had been transferred.

Co-Chair Seaton pointed to slide 7 and asked about information included in the box on the left. He asked if it was a reason for dismissals.

Ms. Ryder answered that DOL had long maintained that their numbers had increased. She deferred to DOL for further detail.

Co-Chair Seaton surmised that there was an impact of collections.

Ms. Ryder answered that collections would be part of the decrease that occurred in the past fiscal year. She turned to slide 8 related to the legal and advocacy services appropriation. She moved to slide 9 related to community revenue sharing. The funding source may impact funding for criminal justice activities in individual communities.

Co-Chair Seaton observed there seemed to be wide variety in the chart.

Ms. Ryder answered that the formula did change, and she believed Petersburg had become a borough.

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Representative Guttenberg spoke to the revenue sharing component in the presentation. He talked about criminal

justice agencies. Some communities did not have police. He wondered how it impacted communities.

Ms. Ryder answered that she had also been curious about the question and had contacted the Alaska Criminal Justice Council. She had received information she would be happy to share. She would provide the information.

Co-Chair Seaton addressed the agenda for the following day.

#

ADJOURNMENT

3:08:06 PM

The meeting was adjourned at 3:08 p.m.